

**ROCHESTER COMMUNITY SCHOOL  
DISTRICT, MICHIGAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008**

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Independent Auditor's Report

To the Board of Education of the  
**Rochester Community School District, Michigan**

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the Rochester Community School District, Michigan as of June 30, 2008 and for the year then ended, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Rochester Community School District, Michigan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund and the aggregate remaining fund information of the Rochester Community School District, Michigan as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and page 42, respectively, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

## DOEREN MAYHEW

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rochester Community School District, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2008 on our consideration of the Rochester Community School District, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Doeren Mayhew", written in a cursive style.

DOEREN MAYHEW

October 29, 2008  
Troy, Michigan

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Introduction**

The Rochester Community School District 63260 (the "School District") is a public school district in the State of Michigan. The School District resides in both Oakland and Macomb counties. The School District is steward over the education of more than 14,500 grade K-12 area students. In support of the educational programs offered, the School District employs approximately 2,000 employees and operates 13 elementary schools, four middle schools, three high schools, one alternative education high school and one adult education facility. The School District resides in a mostly urban area and is surrounded by areas of manufacturing, retail and recreation.

### **Management's Discussion and Analysis**

This section of the Rochester Community School District, Michigan's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Rochester Community School District, Michigan financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances at year end and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund and the Debt Service Fund, with all other funds presented in one column as "other" funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and support organizations. The financial section of the annual report contains the following:

## **Using this Annual Report - Continued**

Management's Discussion and Analysis (MD & A)  
(Required Supplemental Information)

### **Basic Financial Statements**

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)  
Budgetary Information for the General Fund

Other Supplemental Information

## **Reporting the School District as a Whole - District-wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements report the School District's net assets, which is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets are indicators of whether its financial health is improving or deteriorating. Note that the real property, buildings, and land owned by the School District are valued at their purchase price less depreciation. Aged buildings will have a very low "value" and land does not appreciate or depreciate. This reporting meets all accounting standards but would not be considered an accurate appraisal, or market value.

The School District's goal is to provide education to students, not to generate profits as commercial entities do. Sound financial practices and prudent use of public funds protect the ability of the School District to provide a strong foundation for future operations. Beyond financial factors, the quality of the education provided, the School District's programs and initiatives, student learning, the safety of the schools and condition of physical plants should be considered to assess the overall health of the School District.

## **Reporting the School District as a Whole - District-wide Financial Statements - Continued**

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics and food services. These activities are funded by property taxes, unrestricted state aid (foundation allowance revenue), and local, state and federal grants.

## **Reporting the School District's Most Significant Funds - Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required by State law; however, the School District may establish funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the unreserved fund balances left at year end available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

## **The School District as an Agent**

The School District is the agent for its student activity and support organization funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.



## The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008 and 2007:

<b>Table I</b>		
<b>Rochester Community School District, Michigan</b>		
<b>Net Assets - Governmental Activities</b>		
<b>June 30, 2008 and 2007</b>		
	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current and Other Assets	\$ 57,566,393	\$ 64,004,108
Capital Assets	<u>269,392,230</u>	<u>274,409,312</u>
<b>Total Assets</b>	<b>326,958,623</b>	<b>338,413,420</b>
<b>Liabilities</b>		
Current Liabilities	37,690,583	39,785,460
Long-term Liabilities	<u>218,031,764</u>	<u>233,095,478</u>
<b>Total Liabilities</b>	<b>255,722,347</b>	<b>272,880,938</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	44,729,791	34,756,602
Restricted	2,958,419	3,265,967
Unrestricted	<u>23,548,066</u>	<u>27,509,913</u>
<b>Total Net Assets</b>	<b><u>\$ 71,236,276</u></b>	<b><u>\$ 65,532,482</u></b>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table II) of the School District's governmental activities is discussed below. The School District's net assets were \$71.2 million and \$65.5 million at June 30, 2008 and 2007, respectively. Capital assets, net of related debt totaling \$44.7 million, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$3.0 million are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$23.5 million, was unrestricted.

## **The School District as a Whole - Continued**

The \$23.5 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means overall available resources are slightly more than all of our noncapital liabilities (compensated absences, for example). We have only 13.0 percent of total government expenses available to fund unexpected costs. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year-to-year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table II), which shows the changes in net assets for the years ended June 30, 2008 and 2007.

<b>Table II</b>		
<b>Rochester Community School District, Michigan</b>		
<b>Changes in Net Assets</b>		
<b>For the Years Ended June 30, 2008 and 2007</b>		
	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>Revenues</b>		
Program Revenues		
Charges for services	\$ 5,346,513	\$ 5,319,695
Operating grants and contributions	25,461,435	23,602,632
General Revenues		
Property taxes	46,364,642	44,668,393
State aid	100,862,116	100,059,599
Other	<u>6,062,650</u>	<u>8,191,145</u>
<b>Total Revenues</b>	<b>184,097,356</b>	<b>181,841,464</b>
<b>Expenses</b>		
Instruction	85,886,257	74,658,529
Support services	57,257,504	49,772,352
Community services	3,727,298	3,529,644
Food services	3,848,243	2,422,943
Athletics	2,508,008	3,466,244
Interest on long-term debt	11,302,825	12,047,082
Buildings and additions	4,805,060	7,082,908
Depreciation (unallocated)	<u>9,058,367</u>	<u>18,903,098</u>
<b>Total Expenses</b>	<b><u>178,393,562</u></b>	<b><u>171,882,800</u></b>
<b>Increase in Net Assets</b>	<b><u>\$ 5,703,794</u></b>	<b><u>\$ 9,958,664</u></b>

## **The School District as a Whole - Continued**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$178.4 million. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$46.4 million in taxes, \$100.9 million in State foundation allowance, and with our other revenues (i.e., interest and general entitlements). The School District experienced an increase in net assets of \$5.7 million.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with available state resources.

## **The School District's Funds**

As the School District completed this year, the governmental funds reported a combined fund balance of \$40.6 million which is a decrease of \$5.1 million from last year. The primary reason for the decrease is due to expenditures on building projects of \$5.1 million in 2007-2008.

The School District's General Fund budgeted to operate at a deficit of \$2.1 million for the year ended June 30, 2008. General Fund fund balance increased \$0.4 million. The major variance between budget and actual was due to major projects that were either incomplete or unable to begin during the fiscal school year.

Our nonmajor funds, consisting of school lunch, athletics, early retirement and bookstores. The School Lunch Fund experienced an increase of 2.5 percent in revenues and 12.4 percent in expenditures. The fund balance decreased by \$149,048. As a group, the other funds remained stable from the prior year.

The Debt Service Fund showed a fund balance decrease of \$0.3 million from the prior year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. The Debt Service Fund fund balance can only be used to pay debt service obligations.

## **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in February (a schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements).

## **General Fund Budgetary Highlights - Continued**

General Fund revenues of \$154.8 million combined with expenditures of \$154.4 million for an ending increase in fund balance of \$0.4 million. There were several large projects that were not completed during the school year. Those projects will carry on in the next fiscal year and will be added to the budget and will reduce this fund balance increase. At this time, it is expected that approximately \$0.9 million in project expenditures will be completed in 2008-2009.

General Fund revenues combined for a total of \$154.8 million which was \$1.2 million or 0.01 percent under budget. There were many variances from budget both over budget and under budget. This is \$5.1 million or 3.4 percent more than the previous year.

Local revenue sources were budgeted for \$29.2 million and receipts were under budget by \$0.6 million or 2.18 percent. The main sources for the variances were: \$0.58 million due to unused local grant capacity in the budget and \$0.24 million from interest revenues lower than budget. Local revenues were 18.44 percent of total revenues.

State revenues sources were budgeted for \$109.8 million and exceeded budget by \$0.05 million or 0.05 percent. State basic funding was over budget by \$0.18 million due to prior year adjustments. State revenues were 71.0 percent of total revenues.

Federal revenue sources were budgeted for \$4.5 million, and combined for an actual amount of (\$0.58) million, or (12.98) percent under budget. This is due to grants issued but not fully expended. These grants allow for spending over a second year and the School District will not lose this funding. Federal revenues were \$3.9 million or 2.5 percent of total revenues.

County and other revenues are the county taxes and any loan and note proceeds. The budget was \$12.4 million. This category had a variance of \$35,000. The reimbursement for vocational education transportation was less than budgeted and less than the prior year. County and other revenues were \$12.3 million or 8.0 percent of total revenues.

Transfers in, is a category that accounts for the transfer of funds from other funds to the general fund. In this case the school lunch program transferred the budgeted \$119,000 as a partial support for indirect costs the general fund provides to each school lunch program.

General Fund expenditures during the year totaled \$154.4 million and exceeded the previous year by \$8.0 million or 5 percent. Expenditures were \$3.7 million less than the budget of \$158.1 million or 2.4 percent less than budget. Approximately \$1.3 million in projects were uncompleted or cancelled; approximately \$1.0 million was related to categorical funding and grants either unspent or not received as planned. The remaining \$1.4 million of unspent funds is approximately 1 percent of the expenditure budget over the entire budget.

## **General Fund Budgetary Highlights - Continued**

In review of the expenditure categories in comparison to budget, salary costs were \$0.6 million, or 0.6 percent, less than budget. This is the largest category of district expenditures and actual expenditures of \$88.6 million were approximately 57.4 percent of total expenditures. This is 3.2 percent higher than the previous year. This is the first year the School District has employed district substitutes through a contract vendor. The student transportation drivers are the only group of employees who have not been contracted and remain as district employees due to training and certification requirements.

The staff benefit budget is the next largest category. Benefits of \$40.2 million were \$0.3 million or 0.9 percent less than budget. The total was 2.75% more than the prior year. This category is also affected by the change to contract substitutes. The School District is self-funded for health benefits. Total benefit costs were 26.1 percent of the annual General Fund expenditures and were 45.4 percent of the salary expenditures; this is a decrease of 0.1 percent over the prior year. Salary and benefit expenditures together totaled \$128.9 million and equaled 83.5 percent of the General Fund expenditures.

The next category of expenditures is for paid professional services which cost \$6.4 million. The annual expenditures were \$0.8 million, or 11.1 percent, less than budget. This is \$1.8 million or 40.8 percent over the prior year. \$1.5 million of the increase over the prior year is for expenditures due to the School District's substitutes moving to this category. There are multiple budget variances over and under budget. The \$0.8 million under budget is largely made up of \$335,000 for a technology installation project that was not completed during the year, \$219,000 for staff development, and \$108,000 in data processing services. Professional service expenditures were 4.1 percent of the total General Fund expenditures.

Repair and rental service expenditures were \$2.8 million for the year. This was \$29,000 or 1.0 percent less than budget. This category was 1.8 percent of all General Fund expenditures and was 53 percent or \$0.95 million more than the prior year's expenditures. Building and site projects were \$800,000 more than the prior year and vehicle repairs were \$100,000 more than the prior year.

Supplies expenditures of \$8.6 million were \$1.5 million, or 14.58 percent, less than budget. Unspent categorical funding was \$0.9 million, and teaching supplies budget balances of \$0.6 million are the largest variances. Supplies expenditures were 5.56 percent of total General Fund expenditures. This category was \$0.6 million or 7.46 percent higher than the previous year.

Capital expenditures for equipment, vehicles, and furniture totaled \$2.2 million and were \$0.2 million or 8.5 percent less than budget. There are multiple variances in this group both over and under budget. The largest variance was \$225,000 for bus video cameras that have since been installed in the new year. This group was 1.44 percent of total General Fund expenditures and 99.3 percent more than the prior year because we did not purchase buses in the prior year.

## **General Fund Budgetary Highlights - Continued**

Debt and dues expenditures of \$1.0 million were \$75,000, or 6.8 percent, less than budget. All debt payments are required to be paid. Abated taxes were \$60,000 less than budget and the largest variance. Debt and dues cost of 0.7 percent of all General Fund expenditures were 1.6 percent more than the prior year.

Transfer expenditures of \$5.0 million were \$0.2 million, or 4.4 percent under budget. Transfers are made from the General to the Athletics and Early Retirement Fund in order to fund those operations and commitments. The Athletics Fund required \$200,000 less than the original budget. Transfers were 3.0 percent of total General Fund expenditures and 7.9 percent less than the prior year.

Incomplete implementation and completion of large projects, as well as unspent categorical and non-received categorical funding at the School District created a variance from the budget of \$3.7 million or 2.36 percent less than the appropriated expenditure budget in 2007-2008. The variance between actual revenues and expenditures resulted in an increase in fund balance of \$0.4 million for an ending General Fund balance of \$33.7 million, which is 21.4 percent of the 2007-2008 expenditure budget. After consideration of all necessary reserves and designations of fund balance, the year-end undesignated fund balance is \$23.2 million, or 14.7 percent, of the expenditure budget.

The increase in General Fund balance, which resulted from 2007-2008 operations, will be used for the completion of the large projects that will be carried over to the new year budget. An unreserved fund balance of at least \$17 million is necessary to maintain the cash flow of the School District during the 12 weeks when we operate and do not receive State funding. The State fiscal year begins in October; the School District fiscal year begins on July 1<sup>st</sup>.

## Asset and Debt Administration

### Capital Assets

At June 30, 2008 and 2007, the School District had \$269.4 million and \$274.4 million, respectively, invested in a broad range of capital assets with an individual worth of \$5,000 or more, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of approximately \$5.0 million from last year. Table III summarizes these assets (more detailed information is found in Note 5).

<b>Table III</b>		
<b>Rochester Community School District, Michigan</b>		
<b>Capital Assets</b>		
<b>As of June 30, 2008 and 2007</b>		
	<u>2008</u>	<u>2007</u>
Land	\$ 9,144,814	\$ 9,144,814
Buildings and improvements	314,168,763	274,053,526
Furniture and equipment	4,579,015	4,471,152
Buses and other vehicles	8,488,102	8,327,749
Construction-in-progress	<u>201,590</u>	<u>40,957,567</u>
Total capital assets	<b>336,582,284</b>	<b>336,954,808</b>
Less accumulated depreciation	<u>67,190,054</u>	<u>62,545,496</u>
Net capital assets	<b><u>\$269,392,230</u></b>	<b><u>\$274,409,312</u></b>

## **Asset and Debt Administration - Continued**

### **Debt**

At the end of this fiscal year, the School District had \$218.5 million in bonds outstanding versus \$233.4 million in the previous year. These bonds consisted of the following:

<b><u>Bond Issue</u></b>	<b><u>Bonds Outstanding</u></b>
1993 Refunding	\$ 8,445,000
1997 Bond Issue	18,375,000
2000 - Series I	11,175,000
2000 - Series II	3,575,000
2004 Refunding	106,670,000
2004 Bond Issue	49,995,000
2005 Refunding	<u>20,245,000</u>
Total bonds outstanding	<u><u>\$218,480,000</u></u>

The 2005 Bond Issue is an advance refunding of a portion of the bond in the 2000 Series II. All of the above bonds are general obligation bonds. The State limits the amount of bonded indebtedness that school districts can issue to 15% of the assessed value of all its taxable property. This amount is significantly below the \$731 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick and terminal leave, early retirement incentives, and health and workers' compensation amounts. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Factors' Bearing on the District's Future**

The School District anticipates continued increases in health care and retirement benefit costs as well as fuel and utilities. Our student enrollment peaked in 2007-2008 and is expected to begin a slow decrease over the next few years due to declining birth rates. Michigan continues to be in a challenging economic situation. Newly mandated education requirements for graduation require the School District to update courses and provide new student assessment tools and evaluations that provide earlier support for students.

Our elected school board and administration staff consider all of these and many other factors when setting the School District's fiscal year budget. Updates, changes, efficiencies and cuts have been continually made to assure that the district will operate in a prudent manner.



### **Factors' Bearing on the District's Future - Continued**

One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year will be 25 percent of the February 2008 student full time equivalent count and 75 percent of the September 2008 student full time equivalent count. The budget is adopted in June 2008 for the 2008-2009 school year based upon an estimated number of students that will be enrolled in September 2008 on the count date.

Approximately 80 percent of the total General Fund revenues are from the foundation allowance and the taxes collected locally based upon the State funding formula. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, the School District funding is heavily dependent on the State's funding formula and the State's ability to fund public school operations.

Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

As in the past, the School District will modify the budgeted expenditures and operations as necessary to adjust for any State changes in our funding and assure that we operate with a budget that will result in adequate fund balance according to school board policy.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Cash and investments - unrestricted (note 3)	\$ 29,690,786
Cash on deposit with paying agent (note 1)	2,411,299
Receivables	
Accounts receivable	322,648
Due from other governmental units	21,362,085
Inventories	283,912
Prepaid expenses and other	486,335
Cash and investments - restricted (note 9)	3,009,328
Capital assets, net of accumulated depreciation (note 5)	<u>269,392,230</u>
 Total assets	 326,958,623
 <b>Liabilities</b>	
Accounts payable	2,116,706
Accrued payroll and benefits	15,357,880
Due to other governmental units	241
Deferred revenue (note 4)	1,045,662
Long-term liabilities (note 7)	
Bonds and contracts payable - due within one year	15,408,271
Compensated absences - due within one year	3,761,823
Bonds and contracts payable - due in more than one year	209,254,168
Compensated absences - due in more than one year	<u>8,777,596</u>
 Total liabilities	 255,722,347
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	44,729,791
Restricted for debt service	2,958,419
Unrestricted	<u>23,548,066</u>
 Total net assets	 <u><u>\$ 71,236,276</u></u>

See accompanying notes to financial statements

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

		Program Revenues		Governmental
		Charges for	Operating	Activities
	Expenses	Services	Grants and	Net (Expenses)
			Contributions	Revenues and
				Change in
				Net Assets
<b>Functions/Programs</b>				
Governmental activities				
Instruction	\$ 85,886,257	\$ -	\$ 17,225,632	\$ (68,660,625)
Support services	57,257,504	1,519,235	7,382,414	(48,355,855)
Food services	3,848,243	2,964,806	853,389	(30,048)
Athletics	2,508,008	862,472	-	(1,645,536)
Community services	3,727,298	-	-	(3,727,298)
Interest on long-term debt	11,302,825	-	-	(11,302,825)
Buildings and additions	4,805,060	-	-	(4,805,060)
Depreciation (unallocated)	9,058,367	-	-	(9,058,367)
Total governmental activities	<u>\$ 178,393,562</u>	<u>\$ 5,346,513</u>	<u>\$ 25,461,435</u>	(147,585,614)
General revenues				
Taxes				
Property taxes, levied for general purpose				20,389,151
Property taxes, levied for debt service				25,975,491
State aid not restricted to specific purposes				100,862,116
Interest and investment earnings				1,727,348
Other				4,335,302
Total general revenues				<u>153,289,408</u>
Change in Net Assets				5,703,794
Net Assets - July 1, 2007				<u>65,532,482</u>
Net Assets - June 30, 2008				<u>\$ 71,236,276</u>

See accompanying notes to financial statements

# BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2008

### ASSETS

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments (note 3)	\$ 25,961,435	\$ 3,009,328	\$ 3,729,351	\$ 32,700,114
Cash on deposit with paying agent	2,411,299	-	-	2,411,299
Receivables				
Accounts receivable	292,499	-	30,149	322,648
Due from other governmental units	21,311,270	-	50,815	21,362,085
Due from other funds (note 6)	43,756	-	-	43,756
Inventories	192,685	-	91,227	283,912
Prepaid expenses and other	178,600	2,238	150,152	330,990
	<u>\$ 50,391,544</u>	<u>\$ 3,011,566</u>	<u>\$ 4,051,694</u>	<u>\$ 57,454,804</u>
Total assets				

### LIABILITIES AND FUND BALANCES

<b>Liabilities</b>				
Accounts payable	\$ 2,035,142	\$ 53,147	\$ 62,735	\$ 2,151,024
Accrued payroll and other liabilities	13,610,828	-	6,002	13,616,830
Retainage payable	-	-	8,185	8,185
Due to other governmental units	-	-	241	241
Due to other funds	-	-	1,253	1,253
Deferred revenue (note 4)	969,126	-	76,536	1,045,662
	<u>16,615,096</u>	<u>53,147</u>	<u>154,952</u>	<u>16,823,195</u>
Total liabilities				
<b>Fund Balances</b>				
Reserved for				
Encumbrances	1,322,208	-	-	1,322,208
Inventories	192,685	-	91,227	283,912
Insurance escrow	2,411,299	-	-	2,411,299
Prepaid expenses	153,832	-	53,412	207,244
Capital projects	-	-	1,953,219	1,953,219
Debt payment	-	2,958,419	-	2,958,419
Unreserved				
Designated for				
Health care benefits	1,708,786	-	-	1,708,786
Account carryover	408,225	-	-	408,225
Subsequent year expenditures	4,389,681	-	-	4,389,681
Self-funded sports programs	-	-	34,300	34,300
Early retirement benefits	-	-	1,479,803	1,479,803
Undesignated				
General fund	23,189,732	-	-	23,189,732
Special revenue funds	-	-	284,781	284,781
	<u>33,776,448</u>	<u>2,958,419</u>	<u>3,896,742</u>	<u>40,631,609</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 50,391,544</u>	<u>\$ 3,011,566</u>	<u>\$ 4,051,694</u>	<u>\$ 57,454,804</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
TO GOVERNMENTAL NET ASSETS  
JUNE 30, 2008**

Total fund balances - governmental funds	\$ 40,631,609
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported as assets in the funds:	
Cost of capital assets	341,080,427
Accumulated depreciation	(71,603,864)
Loss on disposal of capital assets	(84,333)
Deferred bond issue costs recorded as an asset in the governmental activities - net of amortization	155,345
Long-term liabilities are not due and payable in the current period and are not reported as liabilities in the funds:	
Bonds and notes payable	(224,662,439)
Compensated absences	(12,539,419)
Accrued interest payable is not included as a liability in the governmental funds	<u>(1,741,050)</u>
Total net assets - governmental activities	<u><u>\$ 71,236,276</u></u>

See accompanying notes to financial statements

# BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 28,542,881	\$ 26,360,596	\$ 4,200,934	\$ 59,104,411
State sources	109,882,116	-	100,520	109,982,636
Federal sources	3,913,937	-	752,869	4,666,806
Interdistrict and other sources	11,326,113	-	-	11,326,113
	<u>153,665,047</u>	<u>26,360,596</u>	<u>5,054,323</u>	<u>185,079,966</u>
Total revenues	153,665,047	26,360,596	5,054,323	185,079,966
<b>Expenditures</b>				
Current				
Instruction	86,140,343	-	-	86,140,343
Support services	59,592,756	-	-	59,592,756
Community services	3,727,298	-	-	3,727,298
Payments to public schools	145,592	-	-	145,592
Early retirement	-	-	1,368,525	1,368,525
Food services	-	-	3,848,243	3,848,243
Bookstores	-	-	89,800	89,800
Athletics	-	-	2,508,008	2,508,008
Debt service				
Principal	-	14,965,000	-	14,965,000
Interest	-	11,487,571	-	11,487,571
Other	781,273	215,573	558,118	1,554,964
Capital outlay	-	-	4,805,060	4,805,060
	<u>150,387,262</u>	<u>26,668,144</u>	<u>13,177,754</u>	<u>190,233,160</u>
Total expenditures	150,387,262	26,668,144	13,177,754	190,233,160
<b>Excess of Revenues Over (Under)</b>				
Expenditures	3,277,785	(307,548)	(8,123,431)	(5,153,194)
<b>Other Financing Sources (Uses)</b>				
Proceeds from issuance of notes	982,610	-	-	982,610
Proceeds from sale of capital assets	38,938	-	-	38,938
Operating transfers - in (note 6)	119,000	-	2,889,614	3,008,614
Use of proceeds from notes	(982,610)	-	-	(982,610)
Operating transfers - out (note 6)	(3,008,614)	-	-	(3,008,614)
	<u>(2,850,676)</u>	<u>-</u>	<u>2,889,614</u>	<u>38,938</u>
Total other financing sources (uses)	(2,850,676)	-	2,889,614	38,938
<b>Net Change in Fund Balances</b>	427,109	(307,548)	(5,233,817)	(5,114,256)
<b>Fund Balances - July 1, 2007</b>	<u>33,349,339</u>	<u>3,265,967</u>	<u>9,130,559</u>	<u>45,745,865</u>
<b>Fund Balances - June 30, 2008</b>	<u><u>\$ 33,776,448</u></u>	<u><u>\$ 2,958,419</u></u>	<u><u>\$ 3,896,742</u></u>	<u><u>\$ 40,631,609</u></u>

See accompanying notes to financial statements

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

Total net change in fund balances - governmental funds	\$ (5,114,256)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(9,058,367)
Capital outlays subject to capitalization	4,125,619
Governmental funds report proceeds from the sale of assets as revenue; in the statement of activities, these are recorded net of the carrying value of disposed assets	
	(84,333)
Long-term debt issuance is not reported as a financing source in the statement of activities	
	(982,610)
Accrued interest is recorded in the statement of activities when it is incurred; it is not reported in governmental funds until it is paid	
	184,747
Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	
	15,664,562
Decreases in payroll-related compensated absences and arbitrage obligations are reported as expenditures when financial resources are used in the governmental funds	
	672,065
Amortization of bond premium in the statement of activities	
	308,317
Amortization of bond issue costs in the statement of activities	
	<u>(11,950)</u>
Change in net assets - governmental activities	<u>\$ 5,703,794</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2008

**Assets**

Cash and investments (note 3)	\$ 647,482
Prepaid expenses and other	<u>992</u>
Total assets	<u><u>\$ 648,474</u></u>

**Liabilities**

Accounts payable	\$ 10,454
Due to student groups	575,371
Due to other support organizations	20,039
Due to other governmental units	1,019
Due to other funds	<u>41,591</u>
Total liabilities	<u><u>\$ 648,474</u></u>

See accompanying notes to financial statements



**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - Significant Accounting Policies**

The accounting policies of the Rochester Community School District, Michigan (the School District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies used by the School District:

**A. Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on application of the criteria, the entity does not contain any component units.

**B. District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - Significant Accounting Policies - Continued**

**B. District-wide and Fund Financial Statements - Continued**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**District-wide Financial Statements**

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been substantially eliminated from the district-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - Significant Accounting Policies - Continued**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued**

**Fund-based Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, retirement-related payments and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are custodial in nature (assets equal liabilities) and do not report the measurement of results of operations.

The School District reports the following major governmental funds:

The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - Significant Accounting Policies - Continued**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued**

**Fund-based Financial Statements - Continued**

The Debt Service Fund is used to record tax, interest, and other revenue for payment of interest, principal, refunding of debt, and other expenditures on the School District's bond issues. The fund accounts for debt service payments for the 1993 Refunding, 1997 Building and Site Bond, 2000 Series I and II, 2004 Refunding Bonds, 2004 Building and Site Building Bond and the 2005 Refunding Bond issues.

Additionally, the School District reports the following nonmajor governmental fund types:

The Capital Projects Fund is used to record bond proceeds and other revenue and the disbursement of money specifically designated for acquiring new school sites, constructing buildings or additions, purchasing buildings, equipping, and for remodeling. These funds operate until the purpose for which they were created is accomplished. Defined bond issues within the Capital Projects Fund include the 2000 Series I Bond Issue and the 2004 Building and Site Bond Issue. In addition, the fund records certain public improvement activities.

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Services, Athletics, Bookstores and Early Retirement Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

The Fiduciary Funds are the Student Activities Fund and Support Organizations Fund whose funds are not available for use by the School District.

Special Items include transactions within the control of management that are either unusual in nature or infrequent in occurrence which are reported as special items in the statement of activities.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - Significant Accounting Policies - Continued**

**D. Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The School District has funds on deposit with its third-party administrators in accordance with self-insurance requirements.

**Receivables and Payables**

In general, outstanding balances between funds are reported as "due to/from other funds".

The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts has been recorded. Property taxes are assessed on July 1<sup>st</sup> for taxes due August 15<sup>th</sup> and December 1<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year at which time penalties and interest are assessed and the total obligation is added to county tax rolls. Local tax units fully fund the School District for real property taxes.

**Inventories and Prepaid Items**

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The United States Department of Agriculture commodities inventory received by the Food Services Fund is recorded as an expenditure and recognized as revenue annually.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - Significant Accounting Policies - Continued**

**D. Assets, Liabilities, and Net Assets or Equity - Continued**

**Restricted Assets**

Unspent bond and public improvement proceeds and related interest on the Capital Projects Fund have legal requirements to be spent for specific building and building-related purposes and are restricted assets.

**Capital Assets**

Capital assets, which include land, buildings, equipment, construction-in-progress, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have any infrastructure-type assets.

Buildings, improvements other than buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25 - 45 years
Buses and other vehicles	6 years
Furniture and other equipment	5 - 15 years

**Compensated Absences**

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual vacation, termination and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - Significant Accounting Policies - Continued**

**D. Assets, Liabilities, and Net Assets or Equity - Continued**

**Risk Obligations**

The School District is self-insured regarding both workers' compensation and health insurance. Long-term debt includes the calculated amount of possible claimed and unclaimed amounts for the period based on history of the School District and other similar institutions. These obligations are recognized in the governmental funds when they become due for payment.

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as Capital Projects Fund expenditures.

The School District offers an early retirement benefit. The known cost of future employee benefits is included with long-term debt.

Nonvoted debt with a payment period of over 12 months and current value of arbitrage payable to the Internal Revenue Service are also included in long-term debt.

Compensated absences and early retirement obligations are recognized in the governmental funds when they become due for payment.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - Significant Accounting Policies - Continued**

**D. Assets, Liabilities, and Net Assets or Equity - Continued**

**Fund Equity**

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Note 2 - Stewardship, Compliance and Accountability**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Fund. State law does not require the School District to adopt a budget for the Debt Service Fund. All annual appropriations lapse at the fiscal year end. Capital project budgets are approved at the time of bond issue for the life of the bond.

Annually, budget balances are estimated and entered for the specific bond issues and projects.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Budget transfers between functions may not exceed \$100,000 without board approval. State law requires the School District to have its budget in place by July 1<sup>st</sup>. Expenditures in excess of amounts budgeted are a violation of Michigan law. Revenues may legally exceed budget. State law permits a district to amend its budgets during the year. The School District amended budgeted amounts during the year to reflect actual activity based on student enrollment and operations.



**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 2 - Stewardship, Compliance and Accountability - Continued**

**Budgetary Information - Continued**

Encumbrance accounting is employed in governmental funds. Encumbrances for purchase orders and contracts outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of the year end.

Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Capital Projects Fund Compliance**

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. Outstanding bond issues include the 2000 Series I and the 2004 Building and Site Bonds. For these capital project activities, the School District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. Beginning with the year of bond issuance, the School District has reported the annual construction activity in the Capital Projects Fund.

**Note 3 - Deposits and Investments**

State statutes authorize the School District to make deposits in the account of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated 14 banks for the deposit of its funds.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 3 - Deposits and Investments - Continued**

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$33,193,733 had \$33,093,733 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments**

Custodial credit risk is that risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have a policy regarding credit risk. At June 30, 2008, the School District does not have investments with custodial credit risk.

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District does not have a policy restricting investment maturities. The School District minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 3 - Deposits and Investments - Continued**

**Credit Risk**

State law limits investments in commercial paper to the top two rating issued by nationally recognized statistical rating organizations. The School District does not have a policy that addresses credit risk.

At year end, the School District had no investments in commercial paper.

**Concentration of Credit Risk**

The School District places no limit on the amount it may invest in any one issuer. The School District does not have a policy that minimizes concentration of credit risk.

**Foreign Currency Risk**

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

**Note 4 - Deferred Revenue**

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of fees for services received prior to meeting spending restrictions or providing the related services.

	<b><u>Unearned</u></b>
Fees and receipts for 2008-2009 summer programs	\$ 705,336
Grant, categorical aid, and other payments received prior to meeting all eligibility requirements	<u>340,326</u>
Total	<u><u>\$ 1,045,662</u></u>

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**Note 5 - Capital Assets**

Capital assets activity for the School District's governmental activities is reflected in the following table. Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions/ Disposals</u>	<u>Balance June 30, 2008</u>
Assets not being depreciated:				
Land \$	9,144,814	\$ -	\$ -	\$ 9,144,814
Construction-in-progress	<u>40,957,567</u>	<u>201,590</u>	<u>(40,957,567)</u>	<u>201,590</u>
Total assets not being depreciated	50,102,381	201,590	(40,957,567)	9,346,404
Capital assets being depreciated:				
Buildings and improvements	261,246,486	41,750,309	(2,731,300)	300,265,495
Site improvements	12,807,040	1,778,518	(682,290)	13,903,268
Buses and other vehicles	8,327,749	1,118,944	(958,591)	8,488,102
Furniture and equipment	<u>4,471,152</u>	<u>233,826</u>	<u>(125,963)</u>	<u>4,579,015</u>
Subtotal	<u>286,852,427</u>	<u>44,881,597</u>	<u>(4,498,144)</u>	<u>327,235,880</u>
Accumulated depreciation:				
Buildings and improvements	50,352,794	6,972,049	(2,731,300)	54,593,543
Site improvements	4,020,459	980,144	(682,290)	4,318,313
Buses and other vehicles	5,819,982	821,848	(900,558)	5,741,272
Furniture and equipment	<u>2,352,261</u>	<u>284,328</u>	<u>(99,663)</u>	<u>2,536,926</u>
Subtotal	<u>62,545,496</u>	<u>9,058,369</u>	<u>(4,413,811)</u>	<u>67,190,054</u>
Net capital assets being depreciated	<u>224,306,931</u>	<u>35,823,228</u>	<u>(84,333)</u>	<u>260,045,826</u>
Net capital assets	<u>\$ 274,409,312</u>	<u>\$ 36,024,818</u>	<u>\$ (41,041,900)</u>	<u>\$ 269,392,230</u>

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**Note 5 - Capital Assets - Continued**

**Construction Commitments**

The School District had multiple bond issues with active construction projects at year end. All bond issue proceeds are reserved to fund the projects and Capital Projects Fund balance reserves is expected to be adequate to complete all current projects. At year end, construction commitments totaled \$757,870. These commitments are included in the fund balance reserve of capital projects.

**Note 6 - Interfund Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

<u>Funds Due To</u>	<u>Funds Due From Nonmajor Governmental Funds</u>
General Fund	\$ <u>43,756</u>

The composition of interfund balances represents routine and temporary cash flow assistance from the General Fund. In addition, balances owed to the General Fund are a result of reimbursement for payroll liabilities that were transferred after year end.

	<u>Transfers - Out General Fund</u>
Transfers - in:	
Nonmajor Governmental Funds	\$ <u>3,008,614</u>
	<u>Transfers - Out Nonmajor Governmental Funds</u>
Transfers - in:	
General Fund	\$ <u>119,000</u>

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**Note 6 - Interfund Receivables, Payables and Transfers - Continued**

The nature of interfund transfers represents amounts transferred between the General Fund and the nonmajor governmental funds during the year. The General Fund supports the activity of both the Athletics and Early Retirement Funds.

**Note 7 - Long-Term Debt**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term liabilities include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Bonds	\$ 233,445,000	\$ -	\$ 14,965,000	\$ 218,480,000	\$ 14,405,000
Plus bond premium deferral amounts	<u>4,039,893</u>	<u>-</u>	<u>308,317</u>	<u>3,731,576</u>	<u>308,317</u>
Total bonds payable	237,484,893	-	15,273,317	222,211,576	14,713,317
Notes payable	2,167,817	982,610	699,564	2,450,863	694,954
Other obligations	<u>13,211,485</u>	<u>221,425</u>	<u>893,491</u>	<u>12,539,419</u>	<u>3,761,823</u>
Subtotal nonbond	<u>15,379,302</u>	<u>1,204,035</u>	<u>1,593,055</u>	<u>14,990,282</u>	<u>4,456,777</u>
Total long-term debt	<u>\$ 252,864,195</u>	<u>\$ 1,204,035</u>	<u>\$ 16,866,372</u>	<u>\$ 237,201,858</u>	<u>\$ 19,170,094</u>

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**Note 7 - Long-Term Debt - Continued**

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30<sup>th</sup>:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 14,405,000	\$ 10,366,651	\$ 24,771,651
2010	16,745,000	10,010,395	26,755,395
2011	18,410,000	9,142,664	27,552,664
2012	19,410,000	8,213,245	27,623,245
2013	17,115,000	7,257,745	24,372,745
2014 - 2018	102,280,000	21,738,850	124,018,850
2019 - 2022	<u>30,115,000</u>	<u>2,153,635</u>	<u>32,268,635</u>
Total	<u>\$ 218,480,000</u>	<u>\$ 68,883,185</u>	<u>\$ 287,363,185</u>

General obligation bonds consist of the following:

<u>Bond Issue</u>	<u>Original Issue</u>	<u>Principal Payment Range</u>	<u>Interest Range</u>	<u>Last Payment</u>	<u>Balance June 30, 2008</u>
2005 Debt Refunding	\$ 20,910,000	\$ 85,000-\$ 1,935,000	3.00%-5.00%	2022	\$ 20,245,000
2004 Bond	60,570,000	\$ 750,000-\$ 4,600,000	3.00%-5.00%	2020	49,995,000
2004 Debt Refunding	107,560,000	\$ 215,000-\$13,615,000	2.00%-5.00%	2019	106,670,000
2000-Series II	28,630,000	\$ 100,000-\$ 1,900,000	3.75%-5.00%	2011	3,575,000
2000-Series I	83,490,000	\$ 275,000-\$ 6,000,000	5.50%-5.60%	2010	11,175,000
1997 Bond	100,575,000	\$3,000,000-\$ 7,500,000	5.00%-5.875%	2019	18,375,000
1993 Debt Refunding	42,740,000	\$3,925,000-\$ 3,975,000	5.50%-5.625%	2011	<u>8,445,000</u>
Total bond debt					<u>\$ 218,480,000</u>

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**Note 7 - Long-Term Debt - Continued**

Notes consist of the following:

<u>Note</u>	<u>Original Issue</u>	<u>Principal Payment</u>	<u>Last Payment</u>	<u>Balance June 30, 2008</u>
2008 buses	\$ 982,610	\$ 163,000	2011	\$ 815,000
2006 buses	1,132,241	188,500	2013	565,500
Sheldon Road	400,000	40,000	2012	160,000
2005 buses	1,820,725	303,454	2011	<u>910,363</u>
Total note debt				<u>\$ 2,450,863</u>

Other governmental activities long-term obligations include the following:

Payroll-related long-term debt:

Early retirement incentive	\$ 6,109,914
Sick leave	1,750,506
Terminal leave	567,240
Vacation	396,285
Health care	3,638,996
Workers' compensation	<u>76,478</u>

Total	<u>\$ 12,539,419</u>
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**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 8 - Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Metropolitan Association for Improved School Legislation (MAISL) risk pool for claims relating to property loss, torts, and errors and omissions; the School District is self-insured for medical claims and workers' compensation. In all cases, the School District carries stop-loss coverage. Settled claims relating to the commercial insurance have not exceeded the amount of School District insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

For risk retention situations, the School District estimates the liability for workers' compensation and medical claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in long-term debt (in Note 7) until considered due, whereas the obligations then become governmental fund liabilities. Changes in the estimated liability are as follows:

Changes in health care estimated liability are as follows:

	<u>2008</u>	<u>2007</u>
Estimated liability - Beginning of year	\$ 3,417,572	\$ 2,705,660
Estimated claims incurred, including changes in estimates	18,416,404	17,799,770
Claim payments	<u>(18,194,980)</u>	<u>(17,087,858)</u>
Estimated liability - Ending of year	<u>\$ 3,638,996</u>	<u>\$ 3,417,572</u>

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**Note 8 - Risk Management - Continued**

Changes in workers' compensation estimated liability are as follows:

	<u>2008</u>	<u>2007</u>
Estimated liability - Beginning of year	\$ 239,330	\$ 206,654
Estimated claims incurred, including changes in estimates	142,411	378,843
Claim payments	<u>(305,263)</u>	<u>(346,167)</u>
Estimated liability - Ending of year	<u>\$ 76,478</u>	<u>\$ 239,330</u>

**Note 9 - Restricted Assets**

The balances of the restricted cash and investment asset accounts are as follows:

	<u>Total</u>
Unspent bond proceeds and related interest	\$ 1,901,794
Debt service funds	<u>3,009,328</u>
Total restricted assets	<u>\$ 4,911,122</u>

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 10 - Defined Benefit Pension Plan and Postretirement Benefits**

**Plan Description**

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), which is a cost-sharing multiple employer, state-wide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, health, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at P.O. Box 30171, Lansing, Michigan 48909-7671.

**Funding Policy**

Employer contributions to MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74 percent and 16.72 percent of the covered payroll to the plan for the periods from July 1, 2007 through September 30, 2007 and October 1, 2007 through June 30, 2008, respectively. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2008, 2007 and 2006 were \$15,215,743, \$15,465,272 and \$13,901,587, respectively.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 10 - Defined Benefit Pension Plan and Postretirement Benefits - Continued**

**Postemployment Benefits**

Under the MPSERS Act, all retirees participating in the MPSERS pension plan are covered under the state benefit plan for health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

The School District sponsors various defined contribution postretirement benefit plans covering certain employees. Total contributions to these deferred compensation plans were \$478,205 for the year ended June 30, 2008.

**Note 11 - Contingent Liabilities**

Certain conditions may exist as of the date of the financial statements are issued, which may result in a loss to the School District but which will only be resolved when one or more future events occur or fail to occur. The School District's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceeds that are pending against the School District or unasserted claims that may result in such proceeding, the School District's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the School District's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Over (Under) Final Budget
<b>Revenues</b>				
Local sources	\$ 28,401,850	\$ 29,178,506	\$ 28,542,881	\$ (635,625)
State sources	107,804,271	109,831,406	109,882,116	50,710
Federal sources	4,434,312	4,497,889	3,913,937	(583,952)
Other operating sources	10,833,362	11,375,202	11,326,113	(49,089)
	<u>151,473,795</u>	<u>154,883,003</u>	<u>153,665,047</u>	<u>(1,217,956)</u>
<b>Expenditures</b>				
Instructional				
Basic programs	71,981,369	71,833,769	70,094,939	(1,738,830)
Added needs	16,161,887	16,600,906	15,938,917	(661,989)
Adult and continuing education	102,931	120,630	106,487	(14,143)
	<u>88,246,187</u>	<u>88,555,305</u>	<u>86,140,343</u>	<u>(2,414,962)</u>
Supporting services				
Pupil services	14,265,992	13,995,218	13,849,066	(146,152)
Instructional support	6,544,467	6,640,606	6,034,835	(605,771)
General administration	1,078,258	1,028,991	992,476	(36,515)
School administration	7,024,240	6,976,889	7,005,243	28,354
Business support	1,968,776	1,877,832	1,749,781	(128,051)
Operation and maintenance	17,863,469	17,844,219	17,693,663	(150,556)
Pupil transportation	7,328,805	7,377,934	7,579,005	201,071
Central support	4,799,392	5,075,912	4,515,640	(560,272)
Other support	193,530	186,865	173,047	(13,818)
	<u>61,066,929</u>	<u>61,004,466</u>	<u>59,592,756</u>	<u>(1,411,710)</u>
Community services	3,522,675	3,578,000	3,727,298	149,298
Payments to other public schools	-	-	145,592	145,592
Other	798,302	781,377	781,273	(104)
	<u>153,634,093</u>	<u>153,919,148</u>	<u>150,387,262</u>	<u>(3,531,886)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from issuance of notes	948,279	982,610	982,610	-
Proceeds from sale of assets	25,000	25,000	38,938	(13,938)
Operating transfers - in	119,000	119,000	119,000	-
Use of proceeds from notes	(948,279)	(982,610)	(982,610)	-
Operating transfers - out	(3,204,926)	(3,204,926)	(3,008,614)	(196,312)
	<u>(3,060,926)</u>	<u>(3,060,926)</u>	<u>(2,850,676)</u>	<u>(210,250)</u>
<b>Net Change in Fund Balance</b>	(5,221,224)	(2,097,071)	427,109	2,524,180
<b>Fund Balance - July 1, 2007</b>	33,349,339	33,349,339	33,349,339	-
<b>Fund Balance - June 30, 2008</b>	<u>\$ 28,128,115</u>	<u>\$ 31,252,268</u>	<u>\$ 33,776,448</u>	<u>\$ 2,524,180</u>

## **OTHER SUPPLEMENTAL INFORMATION**

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

OTHER SUPPLEMENTAL INFORMATION  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

**ASSETS**

	Special Revenue Funds					Total
	School Lunch	Bookstores	Athletics	Early Retirement	Capital Projects	
Cash and investments	\$ 268,770	\$ 47,905	\$ 31,079	\$ 1,479,803	\$ 1,901,794	\$ 3,729,351
Receivables						
Accounts receivable	3,002	-	5,500	-	21,647	30,149
Due from other governmental units	50,815	-	-	-	-	50,815
Inventories	60,976	30,251	-	-	-	91,227
Prepaid expenses and other	478	-	-	53,412	96,262	150,152
Total assets	<u>\$ 384,041</u>	<u>\$ 78,156</u>	<u>\$ 36,579</u>	<u>\$ 1,533,215</u>	<u>\$ 2,019,703</u>	<u>\$ 4,051,694</u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>						
Accounts payable	\$ 2,626	\$ -	\$ 1,810	\$ -	\$ 58,299	\$ 62,735
Accrued payroll and other liabilities	6,002	-	-	-	-	6,002
Retainage payable	-	-	-	-	8,185	8,185
Due to other governmental units	111	130	-	-	-	241
Due to other funds	963	68	222	-	-	1,253
Deferred revenue	76,289	-	247	-	-	76,536
Total liabilities	85,991	198	2,279	-	66,484	154,952
<b>Fund Balances</b>						
Reserved for						
Inventory	60,976	30,251	-	-	-	91,227
Prepaid expenses	-	-	-	53,412	-	53,412
Capital projects	-	-	-	-	1,953,219	1,953,219
Unreserved						
Designated for						
Self-funded sports programs	-	-	34,300	-	-	34,300
Early retirement benefits	-	-	-	1,479,803	-	1,479,803
Undesignated	237,074	47,707	-	-	-	284,781
Total fund balances	<u>298,050</u>	<u>77,958</u>	<u>34,300</u>	<u>1,533,215</u>	<u>1,953,219</u>	<u>3,896,742</u>
Total liabilities and fund balances	<u>\$ 384,041</u>	<u>\$ 78,156</u>	<u>\$ 36,579</u>	<u>\$ 1,533,215</u>	<u>\$ 2,019,703</u>	<u>\$ 4,051,694</u>



**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**OTHER SUPPLEMENTAL INFORMATION  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Special Revenue Funds					Total
	School Lunch	Bookstores	Athletics	Early Retirement	Capital Projects	
<b>Revenues</b>						
Local sources	\$ 2,964,806	\$ 95,162	\$ 862,472	\$ 54,291	\$ 224,203	\$ 4,200,934
State sources	100,520	-	-	-	-	100,520
Federal sources	752,869	-	-	-	-	752,869
Total revenues	3,818,195	95,162	862,472	54,291	224,203	5,054,323
<b>Expenditures</b>						
Early retirement	-	-	-	1,368,525	-	1,368,525
Food services	3,848,243	-	-	-	-	3,848,243
Bookstores	-	89,800	-	-	-	89,800
Athletics	-	-	2,508,008	-	-	2,508,008
Capital outlay	-	-	-	-	4,805,060	4,805,060
Other	-	-	-	-	558,118	558,118
Total expenditures	3,848,243	89,800	2,508,008	1,368,525	5,363,178	13,177,754
<b>Excess of Revenues Over (Under) Expenditures</b>	(30,048)	5,362	(1,645,536)	(1,314,234)	(5,138,975)	(8,123,431)
<b>Other Financing Sources (Uses)</b>	(119,000)	-	1,648,614	1,360,000	-	2,889,614
<b>Net Change in Fund Balances</b>	(149,048)	5,362	3,078	45,766	(5,138,975)	(5,233,817)
<b>Fund Balances - July 1, 2007</b>	447,098	72,596	31,222	1,487,449	7,092,194	9,130,559
<b>Fund Balances - June 30, 2008</b>	<u>\$ 298,050</u>	<u>\$ 77,958</u>	<u>\$ 34,300</u>	<u>\$ 1,533,215</u>	<u>\$ 1,953,219</u>	<u>\$ 3,896,742</u>

# BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

## OTHER SUPPLEMENTAL INFORMATION SCHEDULE OF BONDED INDEBTEDNESS FOR THE YEAR ENDED JUNE 30, 2008

Year Ending June 30 <sup>th</sup> :	1993 Debt Refunding Principal	1997 Debt Principal	Bond 2000 - Series I Principal	Bond 2000 - Series II Principal	2004 Debt Refunding Principal	2004 Debt Principal	2005 Debt Refunding Principal	Total
2009	\$ 2,505,000	\$ 3,375,000	\$ 5,500,000	\$ 1,000,000	\$ 235,000	\$ 1,700,000	\$ 90,000	\$ 14,405,000
2010	2,985,000	-	5,675,000	1,275,000	3,690,000	3,025,000	95,000	16,745,000
2011	2,955,000	-	-	1,300,000	10,055,000	4,000,000	100,000	18,410,000
2012	-	-	-	-	13,440,000	4,470,000	1,500,000	19,410,000
2013	-	-	-	-	13,425,000	4,600,000	1,590,000	19,615,000
2014	-	-	-	-	13,395,000	4,600,000	1,675,000	19,670,000
2015	-	-	-	-	13,460,000	4,600,000	1,855,000	19,915,000
2016	-	-	-	-	13,615,000	4,600,000	1,935,000	20,150,000
2017	-	-	-	-	13,560,000	4,600,000	1,930,000	20,090,000
2018	-	7,500,000	-	-	5,935,000	4,600,000	1,920,000	19,955,000
2019	-	7,500,000	-	-	5,860,000	4,600,000	1,910,000	19,870,000
2020	-	-	-	-	-	4,600,000	1,900,000	6,500,000
2021	-	-	-	-	-	-	1,885,000	1,885,000
2022	-	-	-	-	-	-	1,860,000	1,860,000
Total bonded debt	<u>\$ 8,445,000</u>	<u>\$ 18,375,000</u>	<u>\$ 11,175,000</u>	<u>\$ 3,575,000</u>	<u>\$ 106,670,000</u>	<u>\$ 49,995,000</u>	<u>\$ 20,245,000</u>	<u>\$ 218,480,000</u>

	1993 Debt Refunding	1997 Debt	Bond 2000 - Series I	Bond 2000 - Series II	2004 Debt Refunding	2004 Debt	2005 Debt Refunding	
Due date Principal payments	May 1	May 1	May 1	May 1	May 1	May 1	May 1	
Due date Interest payments	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	
Interest rates	5.50%-5.625%	5.00%-5.875%	5.50%-5.60%	3.75%-5.00%	2.00%-5.00%	3.00%-5.00%	3.00%-5.00%	
Original issue amount	\$ 42,740,000	\$ 100,575,000	\$ 83,490,000	\$ 28,630,000	\$ 107,560,000	\$ 60,570,000	\$ 20,910,000	\$ 444,475,000

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**OTHER SUPPLEMENTAL INFORMATION  
SCHEDULE OF CAPITAL PROJECTS ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Public Improvement</u>	<u>Bond 2000</u>	<u>Bond 2004</u>	<u>Total Funds</u>
<b>Balance - July 1, 2007</b>	\$ 279,307	\$ 375,474	\$ 6,437,413	\$ 7,092,194
<b>Revenues</b>				
Interest	10,108	12,913	113,298	136,319
<b>Expenditures</b>				
No location - banking fees	711	1,020	653	2,384
ACE	-	-	15,483	15,483
Adams	-	-	22,249	22,249
Administration building	126,631	-	22,620	149,251
Adult Education - RACE	-	-	(3,582)	(3,582)
Baldwin	-	22,213	-	22,213
Brewster	-	4,040	1,574	5,614
Brooklands	-	21,727	136,245	157,972
Delta Kelly	-	-	1,203	1,203
Facility operations	-	-	5,359	5,359
Hamlin	-	21,727	9,451	31,178
Hampton	-	22,202	7,630	29,832
Hart	-	35,385	126,345	161,730
Hugger	-	3,427	64,265	67,692
Long Meadow	-	-	16,015	16,015
McGregor	-	11,568	18,786	30,354
Meadow Brook	-	-	54,412	54,412
Musson	-	-	56,318	56,318
North Hill	-	-	95,867	95,867
Reuther	-	-	1,744,025	1,744,025
Rochester	-	101,446	119,114	220,560
Stoney Creek	-	-	241,698	241,698
University Hills	-	-	82,367	82,367
Van Hoosen	-	-	1,915,252	1,915,252
West	-	10,696	139,152	149,848
	<u>127,342</u>	<u>255,451</u>	<u>4,892,501</u>	<u>5,275,294</u>
Total expenditures				
	<u>127,342</u>	<u>255,451</u>	<u>4,892,501</u>	<u>5,275,294</u>
<b>Balance - June 30, 2008</b>	<u>\$ 162,073</u>	<u>\$ 132,936</u>	<u>\$ 1,658,210</u>	<u>\$ 1,953,219</u>

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**OTHER SUPPLEMENTAL INFORMATION  
SCHEDULE OF FIDUCIARY FUND ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Balance July 1, 2007</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2008</u>
<b>Elementary Schools</b>				
Baldwin	\$ 8,089	\$ 33,680	\$ 35,267	\$ 6,502
Brewster	17,437	33,690	36,290	14,837
Brooklands	6,088	22,593	22,604	6,077
Delta Kelly	30,637	64,966	68,362	27,241
Hamlin	17,047	25,108	30,391	11,764
Hampton	15,179	17,251	19,852	12,578
Hugger	12,262	30,592	35,941	6,913
Long Meadow	7,532	32,197	31,572	8,157
McGregor	14,548	18,575	22,049	11,074
Meadow Brook	15,324	22,745	24,630	13,439
Musson	10,988	28,721	30,295	9,414
North Hill	11,706	55,589	58,363	8,932
University Hills	5,761	24,960	24,880	5,841
	<hr/>	<hr/>	<hr/>	<hr/>
Total elementary schools	172,598	410,667	440,496	142,769
<b>Middle Schools</b>				
Hart	82,040	169,694	170,753	80,981
Reuther	38,734	161,945	163,041	37,638
Van Hoosen	59,572	184,441	207,569	36,444
West	31,463	135,925	149,062	18,326
	<hr/>	<hr/>	<hr/>	<hr/>
Total middle schools	211,809	652,005	690,425	173,389
<b>High Schools</b>				
Alternative Center for Education	1,955	6,255	7,165	1,045
Adams	122,199	319,465	319,246	122,418
Rochester	85,843	370,317	373,795	82,365
Stoney Creek	98,913	396,410	432,838	62,485
	<hr/>	<hr/>	<hr/>	<hr/>
Total high schools	308,910	1,092,447	1,133,044	268,313
<b>Other</b>				
Old Stoney Creek Schoolhouse	143	-	-	143
Rochester Adult Center for Education	4,580	148	567	4,161
District-wide and outstanding payables	8,566	63,140	12,007	59,699
	<hr/>	<hr/>	<hr/>	<hr/>
Total other	13,289	63,288	12,574	64,003
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Agency Funds</b>	<u>\$ 706,606</u>	<u>\$ 2,218,407</u>	<u>\$ 2,276,539</u>	<u>\$ 648,474</u>

**ROCHESTER COMMUNITY  
SCHOOL DISTRICT, MICHIGAN**

**SINGLE AUDIT  
REPORTING PACKAGE**

**JUNE 30, 2008**



To the Board of Education of the  
**Rochester Community School District, Michigan**

We have audited the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Rochester Community School District, Michigan, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Rochester Community School District, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance**

As part of obtaining reasonable assurance about whether the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Rochester Community School District, Michigan are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## DOEREN MAYHEW

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Doeren Mayhew". The signature is written in a cursive, flowing style.

DOEREN MAYHEW

October 29, 2008  
Troy, Michigan



To the Board of Education of the  
**Rochester Community School District, Michigan**

### **Compliance**

We have audited the compliance of the Rochester Community School District, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Rochester Community School District, Michigan's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Rochester Community School District, Michigan's management. Our responsibility is to express an opinion on the Rochester Community School District, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Rochester Community School District, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Rochester Community School District, Michigan's compliance with those requirements.

In our opinion, the Rochester Community School District, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.



**Internal Control Over Compliance**

The management of the Rochester Community School District, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Rochester Community School District, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

**Schedule of Expenditures of Federal Awards**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Rochester Community School District, Michigan. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Rochester Community School District, Michigan. The combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

A handwritten signature in black ink, appearing to read "Doeren Mayhew", written in a cursive style.

DOEREN MAYHEW

October 29, 2008  
Troy, Michigan

# BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2008

### SECTION I

#### SUMMARY OF AUDITOR'S RESULTS

##### Financial Statements

Type of auditor's report issued:		Unqualified		
Internal control over financial reporting:				
Material weakness(es) identified?	_____	Yes	_____X_____	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	Yes	_____X_____	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____X_____	No

##### Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	_____	Yes	_____X_____	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	Yes	_____X_____	No
Type of auditor's report issued on compliance for major programs:				Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	_____X_____	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.365A 84.027 and 84.173 93.600	Title III - Limited English Proficiency Special Education Cluster Headstart

Dollar threshold used to distinguish between Type A and Type B programs:				
				\$300,000
Auditee qualified as low-risk auditee?	_____	Yes	_____X_____	No

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2008**

**SECTION II**

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

None noted.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**SECTION III**

**FINDINGS - FEDERAL AWARDS AUDIT**

None noted.

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/07</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at 6/30/08</u>
<b>Clusters:</b>								
<b>Child Nutrition Cluster - U.S. Department of Agriculture - Passed Through the Michigan Department of Education:</b>								
National School Breakfast Program:	10.553							
2006-2007		\$ 73,578	\$ 16,564	\$ 73,578	\$ -	\$ 16,564	\$ -	\$ -
2007-2008		<u>91,866</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>87,158</u>	<u>91,866</u>	<u>4,808</u>
Total National School Breakfast Program		165,444	16,564	73,578	100	103,722	91,866	4,808
National School Lunch Program:	10.555							
2006-2007		462,675	85,120	462,675	-	85,120	-	-
2007-2008		<u>523,334</u>	<u>-</u>	<u>-</u>	<u>(100)</u>	<u>502,039</u>	<u>523,334</u>	<u>21,195</u>
Total National School Lunch Program		<u>986,009</u>	<u>85,120</u>	<u>462,675</u>	<u>(100)</u>	<u>587,159</u>	<u>523,334</u>	<u>21,195</u>
Total Child Nutrition Cluster		1,151,453	101,684	536,253	-	690,881	615,200	26,003
<b>Special Education Cluster - U.S. Department of Education - Pass Through Oakland County ISD:</b>								
IDEA:	84.027							
Project number 60450		2,183,999	75,001	125,925	-	75,001	-	-
Project number 70450		2,336,472	1,269,882	2,175,350	-	1,361,273	161,123	69,732
Project number 80450		<u>2,512,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,146,504</u>	<u>2,275,351</u>	<u>1,128,847</u>
Total IDEA		7,033,113	1,344,883	2,301,275	-	2,582,778	2,436,474	1,198,579
Preschool Incentive:	84.173							
Project number 60460		98,581	5,195	8,060	-	5,195	-	-
Project number 70460		98,857	53,126	90,831	-	57,176	8,026	3,976
Project number 80460		<u>107,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,005</u>	<u>93,199</u>	<u>44,194</u>
Total Preschool Incentive		305,034	58,321	98,891	-	111,376	101,225	48,170

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/07</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at 6/30/08</u>
<b>Special Education Cluster - U.S. Department of Education - Pass Through Oakland County ISD - Continued:</b>								
OISD Transition Grants:	84.027A							
Project Name-Action Planning Phase 2007-2008		\$ 500	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 500
Total OISD Transition Grants		500	-	-	-	-	500	500
IDEA Part B:	84.027A							
Service Provider Self Review		5,500	-	-	-	-	4,512	4,512
Total IDEA Part B		5,500	-	-	-	-	4,512	4,512
Total Special Education Cluster		7,344,147	1,403,204	2,400,166	-	2,694,154	2,542,711	1,251,761
<b>Medicaid Cluster - U.S. Department of Health and Human Services - Pass Through Oakland County ISD:</b>								
Medicaid Outreach Program:	93.778							
2006-2007		-	5,613	7,008	-	5,613	-	-
2007-2008		-	-	-	-	3,879	11,240	7,361
Total Medicaid Cluster		-	5,613	7,008	-	9,492	11,240	7,361
<b>Other Federal Awards:</b>								
<b>U.S. Department of Education: Passed Through the Michigan Department of Education:</b>								
Title I:	84.010							
Project number 071530/0607		504,404	37,803	457,301	-	37,803	-	-
Project number 081530/0708		661,073	-	-	-	386,931	511,364	124,433
Total Title I		1,165,477	37,803	457,301	-	424,734	511,364	124,433

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/07</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at 6/30/08</u>
<b>Other Federal Awards - Continued:</b>								
<b>U.S. Department of Education - Continued:</b>								
<b>Passed Through the Michigan Department of Education - Continued:</b>								
Title II, Part D - Technology Literacy Challenge:	84.318							
Project number 084290/0708		<u>\$ 5,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,467</u>	<u>\$ 5,770</u>	<u>\$ 3,303</u>
Total Title II, Part D - Technology Literacy Challenge		5,770	-	-	-	2,467	5,770	3,303
Title V:	84.298							
Project number 080250/0708		<u>3,012</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,012</u>	<u>3,012</u>	<u>-</u>
Total Title V		3,012	-	-	-	3,012	3,012	-
Limited English - Title III - Limited English Proficiency:	84.365A							
Grant 060580/0506		180,155	12,408	180,155	-	12,408	-	-
Grant 080580/0708		<u>261,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,239</u>	<u>167,384</u>	<u>32,145</u>
Total Title III		441,413	12,408	180,155	-	147,647	167,384	32,145
Improving Teacher Quality - Title IIA:	84.367							
070520/0607		296,808	13,862	187,843	-	13,862	-	-
080520/0708		<u>414,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>233,855</u>	<u>318,691</u>	<u>84,836</u>
Total Title IIA		711,140	13,862	187,843	-	247,717	318,691	84,836

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/07</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at 6/30/08</u>
<b>Other Federal Awards - Continued:</b>								
<b>U.S. Department of Education - Continued:</b>								
<b>Passed Through the Michigan Department of Education - Continued:</b>								
Safe and Drug-free Schools and Communities:	84.186							
Project number 062860/0607		\$ 49,456	\$ 1,215	\$ 49,456	\$ -	\$ 1,215	\$ -	\$ -
Project number 072860/0607		39,441	-	33,094	-	6,347	6,347	-
Project number 082860/0708		<u>42,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,128</u>	<u>42,279</u>	<u>9,151</u>
Total Safe and Drug-free Schools and Communities		131,176	1,215	82,550	-	40,690	48,626	9,151
Adult Basic Education:	84.002							
Project number 081130/810537		64,000	-	-	-	48,692	64,000	15,308
Project number 081120/8500115		<u>21,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,776</u>	<u>21,000</u>	<u>224</u>
Total Adult Basic Education		<u>85,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,468</u>	<u>85,000</u>	<u>15,532</u>
Total Noncluster Programs Passed Through the Michigan Department of Education		2,542,988	65,288	907,849	-	935,735	1,139,847	269,400
Carl Perkins Vocational Grant:	84.048A							
Project number 073520/7012-18		69,526	25,396	69,526	-	25,396	-	-
Project number 083520/8012-18		<u>89,526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,889</u>	<u>89,526</u>	<u>52,637</u>
Total Noncluster Programs Passed Through the Oakland County ISD		159,052	25,396	69,526	-	62,285	89,526	52,637

See Notes to the Schedule of Expenditures of Federal Awards



**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/07</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at 6/30/08</u>
<b>Other Federal Awards - Continued:</b>								
<b>U.S. Department of Agriculture:</b>								
<b>Passed Through the Michigan Department of Education:</b>								
	10.550							
Entitlement commodities - 2007-2008		\$ 137,188	\$ -	\$ -	\$ -	\$ 137,188	\$ 137,188	\$ -
Bonus commodities - 2007-2008		<u>480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>480</u>	<u>480</u>	<u>-</u>
Total Passed Through the Michigan Department of Education		137,668	-	-	-	137,668	137,668	-
<b>U.S. Department of Health and Human Services:</b>								
<b>Passed Through the Oakland Livingston Human Service Agency:</b>								
Headstart:	93.600							
Project number 99019/0540 (1/07-6/07) Odd		133,906	38,120	75,059	-	38,120	-	-
Project number 99019/0540 (1/08-6/08) Even		75,059	-	-	-	63,138	71,767	8,629
Project number 99019/0540 (7/07-12/07) Odd		<u>58,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,847</u>	<u>58,847</u>	<u>-</u>
Total U.S. Department of Health and Human Services Noncluster Programs		<u>267,812</u>	<u>38,120</u>	<u>75,059</u>	<u>-</u>	<u>160,105</u>	<u>130,614</u>	<u>8,629</u>
Total Federal Awards		<u>\$ 11,603,120</u>	<u>\$ 1,639,305</u>	<u>\$ 3,995,861</u>	<u>\$ -</u>	<u>\$ 4,690,320</u>	<u>\$ 4,666,806</u>	<u>\$ 1,615,791</u>

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION  
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of the Rochester Community School District, Michigan. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual cost reports. The Rochester Community School District, Michigan receives federal awards indirectly through pass-through entities.

Except for the current year receipts column, which is presented on the cash basis of accounting, federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The modified accrual basis of accounting is also used for the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.

**Note 2 - Major Programs**

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

**Note 3 - Grant Section Auditor's Reports**

Management has utilized the Grant Section Auditor's Reports in preparing the Schedule of Expenditures of Federal Awards. The amounts on the Grant Section Auditor's Reports are included on the Schedule of Expenditures of Federal Awards.

**Note 4 - Adjustment and Transfers**

During the year ended June 30, 2008, adjustments of \$100 and (\$100) with a net effect of zero were recorded related to minor adjustments to grant expenditures and related reimbursements for the Child Nutrition Cluster.

**ROCHESTER COMMUNITY SCHOOL  
DISTRICT, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS  
MEMORANDUM**

**JUNE 30, 2008**



October 29, 2008

Members of the Board of Education of the  
Rochester Community School District, Michigan  
501 West University Drive  
Rochester, Michigan 48307

Dear Board Members:

We have recently completed an audit of the financial statements of the Rochester Community School District, Michigan for the year ended June 30, 2008. Our audit was made primarily for the purpose of expressing our opinion on these statements and, accordingly, did not encompass a detailed review of systems, procedures and internal controls.

We would like to compliment the business office for the excellent job that they have done this past year. We completed the audit with a minimum of adjustments and enjoyed working with your highly professional staff. However, during our audit, we observed certain areas where we believe improvements can be effected, and we offer the enclosed comments and recommendations memorandum for your review.

The accompanying memorandum is not based upon a complete survey of all phases of operating and executive controls; it does, however, direct attention to certain areas which we believe to be especially worthy of the Board's consideration. We appreciate that the ultimate objective of the Board of Education is to achieve maximum control at a minimum cost. We believe that consideration of the recommendations enumerated in this memorandum are compatible with that objective.

After you have reviewed our recommendations, we will be pleased to discuss the contents with you and to assist in the implementation or correction of any items set forth herein.

DOEREN MAYHEW

## PRIOR YEAR COMMENTS AND RECOMMENDATIONS

### Control Over Outstanding Checks

#### **Comment:**

During our audit procedures, we noted that the School District had recorded old outstanding checks as a liability.

#### **Recommendation:**

We recommend that the School District review these old outstanding checks as part of control over cash disbursements. These old outstanding checks should be investigated, adjusted for separately, and payment stopped at the bank, as necessary.

#### **Status:**

We noted that many of the old outstanding checks were investigated and adjusted for at June 30, 2008.

### Signature Stamps

#### **Comment:**

During our fraud interviews, it was noted that signature stamps are used by secretaries showing approval of invoices. There is concern that the principals are not actually approving the invoices.

#### **Recommendation:**

We recommend that a policy be put into place that principals are meeting with their secretaries to review and approve all invoices that the secretaries' approve using the principal's signature stamp.

#### **Status:**

We noted that the School District is currently in the process of implementing specific policies and procedures regarding the use of signature stamps.

### New Vendor Setup

#### **Comment:**

During our fraud interviews, it was noted that the employees that process accounts payable have the ability to set up new vendors.

## **PRIOR YEAR COMMENTS AND RECOMMENDATIONS - Continued**

### **New Vendor Setup - Continued**

#### **Recommendation:**

There should be a control in the computer system that will not allow employees that process accounts payable to set up new vendors.

#### **Status:**

We noted that the School District implemented a policy which does not allow employees that process accounts payable to set up new vendors.

### **Information Systems**

#### **Comment:**

During our audit procedures, we noted that the School District's existing information systems do not provide the control, data availability, data integration or management reporting needed to enable the School District to operate efficiently. For example, upon occasion summary and detail reports do not agree indicating data integrity problems. In addition, various report capabilities are limited or require manual input and use of other programs increasing potential errors or inefficiencies. The information systems should enable the School District to secure critical information, have information readily available when needed and produce reliable, accurate reporting.

#### **Recommendation:**

The School District should develop a technology plan which addresses the School District's goals and objectives, its control environment, and its need for accurate, reliable, data management and reporting. This plan should include the evaluation and selection of an information system that will support the School District's goals and objectives and act as an enabler for the School District to efficiently, effectively and securely manage and report its data.

#### **Status:**

No change from the prior year.

### **Approved Vendors**

#### **Comment:**

During our fraud interviews, it was noted that there is no policy in place to ensure vendors are compared to the disbarred list before approving them.

## **PRIOR YEAR COMMENTS AND RECOMMENDATIONS - Continued**

### **Approved Vendors - Continued**

#### **Recommendation:**

We recommend that the School District implement a formal policy that requires all vendors to be compared to the disbarred list before approval for use. We also recommend that the School District compare the disbarred list to their approved vendor list on a regular basis.

#### **Status:**

We noted that the School District implemented a policy during the current year which bars the use of vendors determined to be on the List of Parties Excluded from Federal Procurement or Non-procurement Programs.

### **Conflict of Interest**

#### **Comment:**

During our fraud interviews, it was noted that some vendors that are used by the School District may have a conflict of interest with current employees of the School District.

#### **Recommendation:**

We recommend that the School District implement a conflict of interest policy.

#### **Status:**

We noted that the School District implemented a vendor relations policy during the current year which addresses potential conflict of interest with suppliers.

### **Inactive Bank Accounts**

#### **Comment:**

During our testing of the bank reconciliations, we noted that the School District has a bank account open that has no activity. The School District receives a zero balance statement for this account.

#### **Recommendation:**

We recommend that the School District review the need for the existing bank account and close any that are no longer deemed necessary.

#### **Status:**

We noted no inactive bank accounts at June 30, 2008.

## CURRENT YEAR COMMENTS AND RECOMMENDATIONS

### Information Technology

#### **Comment:**

In connection with our audit of the financial statements, various general and specific information technology controls and processes are reviewed. As a result, although no errors or adjustments were noted, we discussed with management various areas where changes could be made to improve segregation of duties, automate processes, monitoring of data and changes to information, and backup procedures.

#### **Recommendation:**

We recommend management continue to determine appropriate modifications and requisite steps and timelines to implement any changes in the controls and processes.